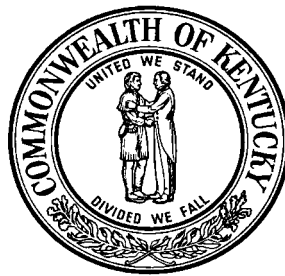


**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
CLERK**

**For The Period July 1, 2002
Through December 31, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Rita M. Spencer, Pendleton County Clerk

Members of the Pendleton County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Pendleton County, Kentucky, for the period July 1, 2002 through December 31, 2002.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Pendleton County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PENDLETON COUNTY CLERK

**For The Period July 1, 2002
Through December 31, 2002**

Carpenter, Mountjoy & Bressler has completed the Pendleton County Clerk's audit for the period July 1, 2002 through December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The total receipts for this period were \$1,148,264 and disbursements were \$1,133,222 resulting in excess fees of \$15,042.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Pendleton County, Kentucky, for the period July 1, 2002 through December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the period July 1, 2002 through December 31, 2002, in conformity with the modified cash basis of accounting.

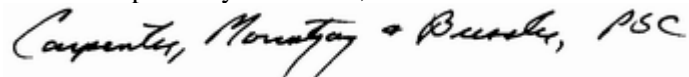
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Honorable Rita M. Spencer, Pendleton County Clerk
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November, 25, 2003

PENDLETON COUNTY
 RITA M. SPENCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period July 1, 2002 Through December 31, 2002

Receipts

State Fees For Services	\$	5,933
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Fiscal Court		6,585
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	129,036
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Usage Tax		506,085
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Tangible Personal Property Tax		387,190
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Licenses-

Marriage		1,587
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Occupational		182
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Deed Transfer Tax		11,393
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Delinquent Tax	48,775	1,084,248
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	5,130
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Real Estate Mortgages		15,125
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Chattel Mortgages and Financing Statements		17,339
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Powers of Attorney		266
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All Other Recordings		12,138
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Charges for Other Services-

Candidate Filing Fees		1,170
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Miscellaneous	330	51,498
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Total Receipts	\$	1,148,264
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The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 RITA M. SPENCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period July 1, 2002 Through December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 93,617

Usage Tax 490,670

Tangible Personal Property Tax 145,498

Licenses, Taxes, and Fees-

Delinquent Tax 6,228

Legal Process Tax 5,552

Candidate Filing Fees 570 \$ 742,135

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 42,001

Delinquent Tax 6,255

Deed Transfer Tax 10,755

Occupational Licenses 147 59,158

Payments to Other Districts:

Tangible Personal Property Tax \$ 184,203

Delinquent Tax 21,844 206,047

Payments to Sheriff

3,326

Payments to County Attorney

6,828

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 70,112

Materials and Supplies-

Supplies and Materials 5,982

Delivery Charges (UPS) 1,032

Utilities 1,312

Other Charges-

Dues 500

Postage 3,289

Insurance 2,175

Office Equipment 377

Miscellaneous 244 85,023

Total Disbursements

\$ 1,102,517

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
RITA M. SPENCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Period July 1, 2002 Through December 31, 2002
(Continued)

Net Receipts	\$ 45,747
Less: Statutory Maximum	<u>28,905</u>
Excess Fees	\$ 16,842
Less: Expense Allowance	<u>1,800</u>
Excess Fees Due County for 2002	\$ 15,042
Payments to County Treasurer - January 24, 2003	<u>15,042</u>
Balance Due at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. As of July 1, 2003 the unexpended grant balance was \$23. No funds were expended July 1, 2002 through December 31, 2002. Therefore the unexpended grant balance was \$23 as of December 31, 2002.

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COMMENT AND RECOMMENDATION

PENDLETON COUNTY
RITA M. SPENCER, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period July 1, 2002 Through December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted a lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of adequate segregation of duties. We recommend that the County Clerk implement compensating controls to offset the lack of segregation of duties.

County Clerk's Response:

Limited Staff.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Certified Public Accountants and Consultants

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Pendleton County Clerk for the period July 1, 2002 through December 31, 2002, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Clerk's financial statement for the period July 1, 2002 through December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

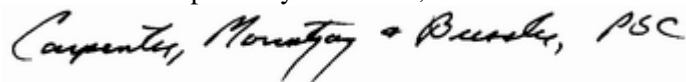
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 25, 2003

